

# Consumer Market Developments

## Rise Continues in Early 1962—Shift in Pattern of Buying—Total Purchases in Line With Income

CONSUMER spending has moved up steadily since the beginning of 1961 to a seasonally adjusted annual rate of \$352 billion in the first quarter of 1962, an expansion of about \$21 billion, or 6 percent over the first quarter of last year. As the decline in spending from the peak in late 1960 was short-lived and moderate, new highs were attained in each quarter beginning with the second quarter of last year. This performance, it may be noted, was achieved in a period of generally stable prices.

Purchasing by consumers has moved quite closely with the record flow of income in the last four quarters so that the ratio of expenditures to disposable income has remained virtually unchanged at 93 percent. The consumer potential to step up purchases in the period that lies ahead is fairly strong, because incomes are rising, and also in view of the relatively easier credit situation and the favorable adjustments that were made in credit outstanding during the period of low purchasing of durable goods in 1961. The ratio of repayments on automobile installment credit paper to disposable personal income during the fourth quarter of 1961 (and also the first quarter of 1962 from present indications) is at the lowest level since before 1954.

### Durable spending slows after pacing recovery

The response of spending to the 1961-62 recovery in economic activity exhibited a typical cyclical pattern. Service expenditures continued upward for a gain by the first quarter of this year of nearly \$10 billion or 7 percent over a year earlier; nondurables rose more moderately, about \$6 billion or 4 percent, while durable goods purchases which had shown a deep decline during the recession period recovered sharply, moving up by more than an eighth. In the opening quarter of this year, however, while services and nondurable goods demand expanded further, durable goods expenditures fell moder-

ately. This slippage—and a decline in consumers' purchases of new houses—was a limiting factor in the slower rise in overall activity last winter.

New car sales, which in January and February had fallen below the seasonally adjusted fourth quarter 1961 monthly average, rebounded to a near-record rate in March. Furniture and household equipment expenditures rose more than 7 percent between the first and fourth quarters of 1961 and, despite a slight decline in the first quarter of 1962 reflecting in part the slowing of new home construction, the current level remains close to 6 percent above a year ago.

Within the nondurables, food buying rose about 2 percent during 1961, and in the opening quarter of this year increased somewhat more. Part of this current increase in food purchases is due to price rises, particularly on vegetables and seafood where adverse weather reduced supply. Purchases of clothing and shoes, despite a weak second quarter, rose nearly 6 percent from the beginning of 1961 through the fourth quarter, but appear to have leveled off in the early months of 1962. Consumer expenditures on gasoline and oil showed little change during 1961 and in the first quarter of this year, as a decline in prices mostly offset slightly higher volume.

Reviewing the recovery in consumer buying thus far in the current cycle, it appears that the 6-percent rise in the four quarters since the trough compares favorably with the positions at similar stages in the 1954 and 1958-59 upswings, and was well above the 1949-50 increase. (See table 2.) These comparative results also hold for services and nondurable goods.

In the case of durables the current increase of 13 percent was little different from the advance recorded during the first four quarters of rise in 1958-59 and well above that in the 1954 recovery. In the 1949-50 cycle durables rose about 20 percent. These differential movements are almost entirely due to the varied response in auto purchasing. As can be seen in the table, the increase in disposable personal income has been relatively larger thus far in the current recovery than in similar earlier postwar periods.

### Shift in patterns of consumption

Demand for goods in the postwar period has failed to maintain its historical relationship to advancing income, while outlays for services have exceeded it. Although starting from a low base in the immediate postwar period, the strong growth in services has been an important factor in raising total spend-

Table 1.—Personal Consumption Expenditures, 1960-62

[Billions of dollars]								
	1960	1961	1961				1962	Percent change in quarters 1961-62
			I	II	III	IV	I	
			Seasonally adjusted at annual rates					
Durable goods.....	44.3	42.3	39.4	42.9	42.3	45.5	44.9	12.2
Auto and parts.....	18.6	10.8	14.9	16.7	16.4	19.3	18.7	20.4
Furniture and household equip- ment.....	18.8	18.5	17.5	18.3	18.8	19.1	18.8	5.8
Nondurable goods.....	152.4	155.5	152.7	161.1	158.2	158.1	160.2	4.2
Clothing and shoes.....	28.1	28.4	27.0	27.8	28.4	29.5	29.4	6.4
Food and alcoholic beverages.....	80.1	81.8	81.1	81.4	81.9	82.7	84.5	4.2
Gasoline and oil.....	21.0	11.8	11.7	11.7	11.8	11.8	12.0	2.6
Services.....	132.2	141.2	137.5	139.8	143.4	144.8	147.2	7.1
Household operation.....	19.0	21.0	20.6	20.0	21.2	21.0	22.0	6.8
Housing.....	42.2	44.3	43.0	44.2	44.8	45.5	48.1	5.7
Transportation.....	10.4	10.8	10.5	10.7	10.9	11.0	11.1	5.7
Total.....	326.9	329.0	326.7	330.1	341.4	348.4	352.0	0.4

1. Based on preliminary data.

ing to new highs and keeping it about in line with income changes particularly in recent years when purchases of durables have lagged appreciably. Total consumer expenditures for goods and services relative to gross national product have displayed a good deal of stability. Since Korea, consumption expenditures have ranged only from 64 percent to 66 percent of GNP.

The nature of the shifting patterns of consumer buying may be observed from the chart depicting the disposition of the consumer dollar in the 1929-62 period. Most notable is the character of the service segment. The portion of the dollar spent for services, which because of war and immediate postwar restrictions such as rent controls, lower housing construction, postponed vacations, etc., had fallen to a low of 31 cents in 1947, climbed steadily thereafter to nearly 42 cents in the first quarter of 1962.

To a large extent this advance represents a restoration of the services' position in the prewar full employment period. The current share of services in the consumer dollar is only one cent higher than in 1929. More particularly, there has been an catching up in the prices of services which had undergone severe restrictions in the war and early postwar years. As a result these prices have risen considerably faster than goods prices. This trend is continuing: Since 1958, service prices have risen more than 8 percent and goods prices barely 2 percent. In real terms, services took 39 cents of the consumer dollar in the opening quarter of this year, as compared to 34 cents in 1947 and 37½ cents in 1929—considerably smaller shifts than shown in the current dollar statistics.

Within these aggregates, however, there are important changes in the composition of services. Among these are the shifts associated with the movement from rented to owner-occupied dwellings, and the increased shares of medical care, gas, electricity, and telephones.

Housing, which accounts for nearly a third of all service expenditures, contributed a proportionate share to the postwar growth in total services until 1954. Since then, however, its growth

has been slower than that of the "other" service groups, notably personal interest payments, hospitals and health insurance, medical care, and household repair services. The slowing in the rate of housing growth reflects a slackening rise in housing stock as well as rents.

Nondurable goods expenditures reached a peak of 60 cents of the con-

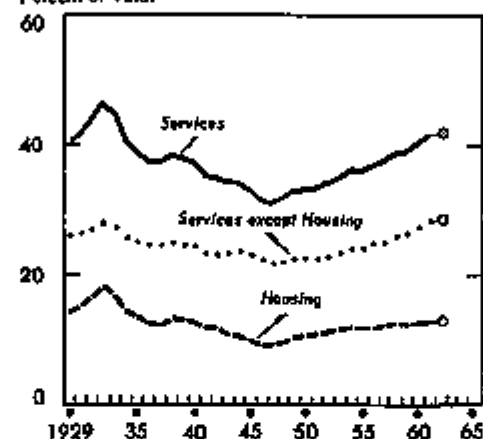
sumer dollar in wartime 1945 when many hard goods were in short supply and many services restricted. Their share since then has declined steadily to 51 cents in 1950 and to a low of 46 cents in the first quarter of 1962; while this is only 2 cents below the figure recorded in 1929, it should be noted that outlays for alcoholic beverages are excluded in 1929. This pattern is almost wholly accounted for by the behavior of food and clothing expenditures which currently account for about 70 percent of all nondurable goods purchased. Since 1950, the food proportion has declined about 3 cents and the clothing share by 2 cents. Expenditures for these items tend to move with population, which has increased less rapidly than disposable income or total consumption expenditures, although other factors have also contributed to the downward trend in their shares.

The proportion of the consumer dollar going for the remaining nondurable goods, which rose sharply in the early thirties largely reflecting the inclusion of expenditures for alcoholic beverages following the repeal of prohibition, has been relatively stable in the postwar period. This apparent stability results from a rise in the gasoline and oil proportion offset by a decline in relative spending for alcoholic beverages in the more recent years.

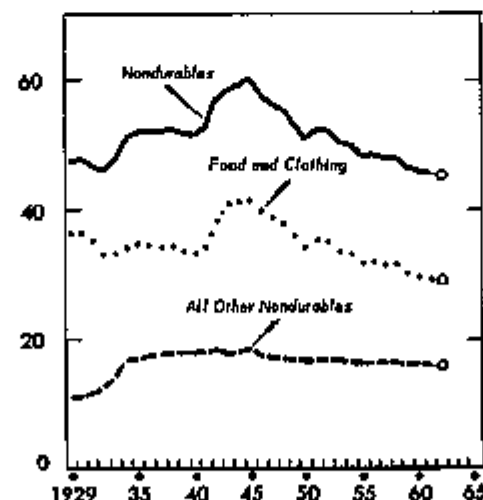
The percentage of consumer spending going to durable goods has, of course, shown the most pronounced fluctuation of the major categories both in the prewar and postwar years. Nonetheless, every year since 1948 this proportion

#### CHANGING CONSUMER SPENDING PATTERNS

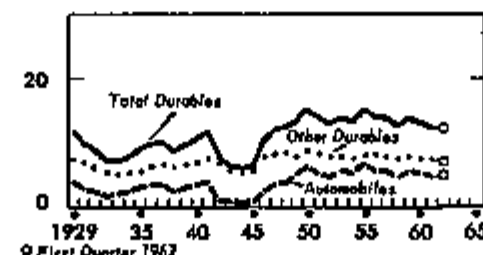
- Postwar Rise Brings Services' Share of Consumer Dollar Back to 1929 Position
- Growth in Housing Share Slower Since 1954
- Services Other Than Housing Above 1929 Position Percent of Total



- Decline in Nondurables From Abnormally High War and Early Postwar Position Due to Food and Clothing



- Durables Share Has Eased in Recent Years, But Remains a Unit Above 1929



Q First Quarter 1962

U.S. Department of Commerce, Office of Business Economics

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Table 2.—Changes in Consumption Expenditures and Income During Postwar Cyclical Upturns

From trough in total consumption to same quarter one year later

	Consumption expenditures				Disposable personal income
	Durable goods	Nondurable goods	Services	Total	
	Percentage change in seasonally adjusted data				
1st quarters 1948-50.....	10.9	-1.6	8.6	8.7	8.4
4th quarters 1953-54.....	8.5	3.1	6.6	4.7	2.6
1st quarters 1958-59.....	13.8	3.8	7.3	8.4	5.9
1st quarters 1961-62.....	13.2	4.2	7.1	8.4	8.7

has exceeded that of the highest prewar year back to 1926. Expenditures for automobiles and parts have also surpassed their highest prewar share in every year after 1947.

As can be seen in the chart, outlays for new cars have shown some slippage relative to other types of spending in the most recent years. While this is due to some weakness of demand, an equally important factor has been the appreciable decline in average unit prices of new cars as the less expensive compacts have taken an increasing share of the market. Compacts accounted for almost two-fifths of all new car sales in the opening months of 1962.

#### Consumption-Income Relationships

In the postwar years total consumer spending has moved fairly closely with income. Of the three major sectors, purchases of nondurables and services have shown generally small fluctuations relative to changes in disposable income but those of services have shown the greatest overall rise.

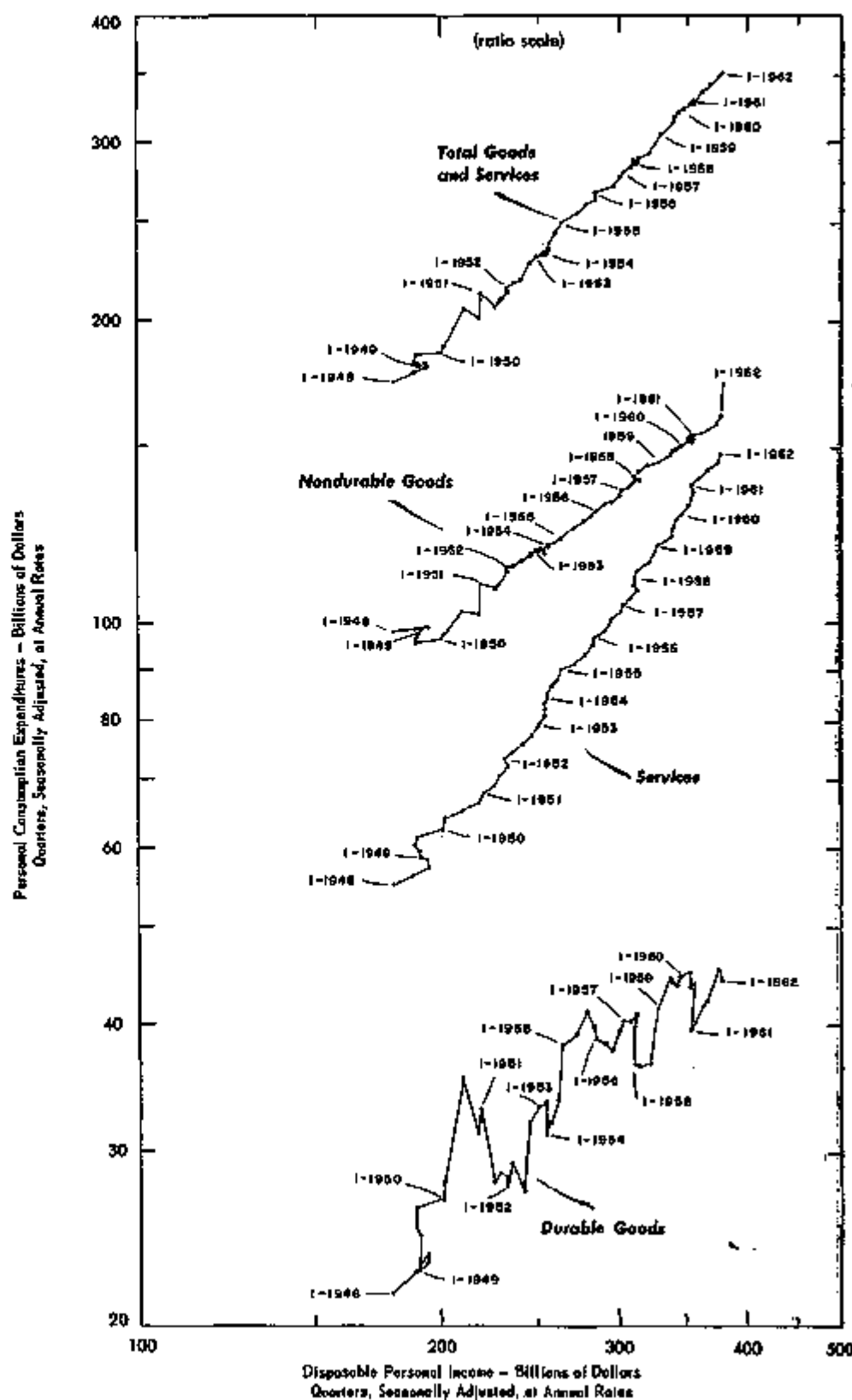
These relationships can be observed clearly from the chart showing consumer expenditures in relation to income. Since both consumption expenditures and disposable income are plotted on this chart in terms of a ratio scale, the slope of each curve shows the proportionate change in spending of each kind as disposable income changes by a given percentage. Hence the steepness of the curve for services shows that this category in the postwar period has been increasing faster relative to income than the other two major categories, or, in other words, the percentage of income going to services has been rising.

This steep slope, however, is a postwar phenomenon. As can be seen in the other chart, services took a declining share of the consumer dollar during the prewar and war years. Thus the prewar slope for services would be much less steep and, as will be indicated below, was much more shallow than for either durables or nondurables. A similar shift in the opposite direction, to a less steep slope in the postwar years, has occurred in durables.

Special factors in the postwar period that tended to influence this relation-

### CONSUMER EXPENDITURES IN RELATION TO INCOME

- Total Buying in Line With Income
- Nondurables Quite Stable
- Durable Purchases Fluctuate Widely With Upward Tendency
- Services Continue Upward Growth Relative to Income



ship to income include the making up of prewar and wartime deficits in durables, and higher-than-prewar birth rates and family formation. The overriding difference from the prewar period, however, is the maintenance of relatively high economic activity, interrupted by only brief, short-lived recessions. High, steady employment, a large volume of accumulated assets and readily available credit have enabled consumers to build a large stock of durable goods, and therefore to reduce the income sensitivity of durable goods demand from the prewar period. Hence, the relationships now obtained are significantly different from the prewar period which was characterized by deeper and longer recessionary movements.

On the ratio chart, durable goods show characteristic short-term fluctuations relative to income, but also exhibit a strong upward trend in the early postwar years as the heavy backlog of demand was being satisfied, and a flattening out since 1955. This in-

stability becomes even more extreme when the major component, autos and parts, is examined by itself. Some of these wide swings in durables are related to shifts in consumer income, but often they are caused by entirely separate factors. The outbreak of Korean hostilities in 1950 and the new auto styling and innovations in 1955 (both leading to sharp increases in durable purchases) are examples. Also, the cyclical response in the case of durables is strong even in periods of relatively small business fluctuations, reflecting the postponability of purchases of big-ticket items.

Food expenditures, while somewhat unstable in the early period, have moved more closely with disposable income since 1951. Expenditures for clothing and shoes showed only a slightly greater increase relative to income than is true of food. In general, outlays for the major service components did not exhibit large deviations from income trends in the postwar years and, with the notable exception of transportation, increased more rapidly than income.

### Regional Income—(Continued from page 8)

average rate of income gain in the Southwest last year was the moderating of a strong income pick-up in Arizona—a continuation of that State's strong post war growth—by the smaller increases in Oklahoma and New Mexico.

Last year's income advance in Arizona was widely based. Every major industry was up substantially. Percentage increases in farm income and in government disbursements matched those in the country as a whole, but in private nonfarm industries the percentage rise was striking. Total earnings of persons employed in industries other than farming and government rose 6 percent in the State from 1960 to 1961 and 2 percent nationally. Among individual industries, the largest gains occurred in trade, services, and manufacturing. In each, Arizona's 1960-61 rate of increase outstripped that in the country as a whole by a wide margin. The rise in total income in the State was accompanied by, and, in fact, partially caused by population growth. Accordingly, per capita income rose at a lesser rate—1 percent.

#### Rocky Mountain

Nonfarm income in the Rocky Mountain States—the second most agricultural of the regions—experienced one of the largest percentage rises in the Nation from 1960 to 1961—about double that of the Nation as a whole. This top-ranking gain combined with a small decline in income from farming gave the region a percentage rise in total income that ranked, along with that of New England and the Far West, as the largest in the Nation.

Partly making up for a drop in construction was a spurt in farm income in Wyoming. In contrast, Montana's wheat crop suffered severe drought losses and farm income in that State fell more than one-fourth, a decline that offset the gain in income from nonfarm sources leaving total personal income in the State unchanged from 1960 to 1961.

Manufacturing earnings—chiefly related to defense expansion—were a primary factor in boosting nonfarm incomes in Utah and Colorado.

#### Far West

The Far West, along with the Northwest, scored the largest relative rise in total income—5 percent. Among individual States rates of change varied widely.

Tourism, trade, and a spurt in construction activity pushed aggregate income in Nevada up 8 percent, the second largest relative increase of any State in 1961.

The flow of personal income to residents of California was at a record \$45½ billion last year. This was \$2 billion, or 5 percent, more than the 1960 total. The income advance was broadly based with substantial gains in nearly all lines of economic activity. Largest increases occurred in manufacturing and services, with earnings of persons in these industries rising about \$300 million and \$400 million, respectively, in 1961. Together, the pick-up in manufacturing and services accounted for one-third of the overall income rise in the State. Substantial gains—all better-than-average—were recorded in mining, construction, trade, and finance. Agriculture was the only major industry to show a decline from 1960 to 1961, although activity in parts of some industries—aircraft production, for example—was down.

Consumer incomes in Washington rose 4 percent last year. A good gain in factory payrolls, centering mainly in the large industrial complex at Seattle, gave a strong lift to private nonfarm income. In contrast, farm income in the State declined almost one-tenth and income disbursed by Federal, State, and local governments rose but at less-than-average rates. On balance, then, the aggregate income rise was of average proportions.

#### Alaska and Hawaii

In Alaska, completion of defense projects reduced earnings in the construction industry approximately one-third; while smaller earnings in the lumber industry were responsible for the drop of one-tenth in factory payrolls.

Aggregate income in Hawaii continued to grow in 1961 as earnings from all major nonfarm components expanded at rates exceeding those recorded for the Nation as a whole.